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# THE NECESSITY FOR PUBLIC OWNERSHIP OF THE RAILWAYS

BY FREDERIC C. HOWE

Objections to the public ownership of the railways has for the most part been narrowly confined to the dangers of the spoils system, the possible activity of a great army of employes, the alleged incompetence of the government, its unwillingness to make improvements, and the necessity of keeping alive opportunities for individual initiative in this the greatest of all industrial activities of the nation.

But these allegations, even if true, are very secondary to the main question. The most important question before any people is the preservation of industrial and political liberty on the one hand, and the maintenance and development of the state on the other. And both of these things are all but impossible under private ownership of the railways.

## POLITICAL INTEGRATION OF THE NATION

It is assumed that the political activities of the railroads have come to an end. "We are out of politics" is a frequent assertion of officials. The vulgar corruption of a few years ago may be in large part ended by the exposure and by the laws which have been passed; but a far more subtle, insidious control is maintained over the political life of the nation by the ramified activities of the railroads and the corporations identified with the railroads. It is no longer necessary to bribe men as it was a few years ago. An examination of the legislatures of our states shows a preponderatingly large number of railway attorneys within the membership. Judges of both federal and state courts are advanced from the railway legal departments to the bench. The constitutional conventions of New York, Ohio and Michigan recently held were filled with railway attorneys; and in New York and Michigan the constitutions which issued from their hands shielded and protected not only the railroads but the local public utility corporations. Chambers of commerce are ostensibly organizations of industry and trade. Yet they either cannot or dare not represent their membership. In most in-

stances they cannot. Instead of being organizations for the up-building of the community as they are in many foreign countries, they are too often interlaced with privileged interests that control their views on important public questions. The same is true of the press. It, too, is controlled and moulded by ownership, by advertisers and by the expenditure of millions of dollars for advertising. At the time of the threatened strike of the railway operatives a year ago it was stated that three million dollars was spent in a single day by the railways in presenting their claims.

In addition the wealth and talent of the nation is divorced from the nation. Attorneys, bankers, big business men are in constant conflict with the government. Railway officials fear regulation, taxation, measures for full crews and the like. A great staff of men is maintained for the presentation of claims before the Interstate Commerce Commission and for fighting off cases before the courts, while publicity agencies utilize every means for discrediting the government and bringing it into that distrust if not contempt which is largely the result of the innuendoes and activities of privileged interests.

Government ownership would end this conflict. It would free the talent of the nation. Men's patriotism would run free, unpoisoned by their private interests. Our city councils, legislatures and Congress would appeal to men of big talents who now are divorced from participation in politics because of the interests which they represent. The American people are not more unfit for self government than other peoples. This is not the trouble. The real trouble is that we have made it almost impossible for strong men and capable men to be identified with the state. The positions of power and wealth are to be had in corporations in constant conflict with the nation; they are monopoly privileges of various kinds which depend upon government favor. We must end this divorce. There is just as irrepressible a conflict between privilege and democracy as there was between slavery and freedom.

#### INDUSTRIAL INTEGRATION

What is true of the talent of America is equally true of our industrial life. Our circulatory system is owned by eighteen hundred quarreling, competing transportation agencies, each of which is in conflict with the others; and all of which are in conflict with the

producers and consumers. Transportation is run for profit. It should be the agency of service. And the great profits of the railroads are from anti-social service. To take but two from a score of examples. First, railroads are interested in long haul traffic. The community is interested in short haul traffic. More money is to be made in transporting goods across the continent than from a near-by point. Every traffic employe knows this fact. Fifty years ago food and cattle were produced for local markets, as is the case in other countries. Today the food of cities like New York and Philadelphia comes from California, Florida and distant points. Farmers in New York State cannot get transportation service. They are driven out of business. They abandon their farms. Yet while these farmers are clamorous for cars, food trains come in with the regularity of express service from Oregon and California. The same is true of cattle. At one time every farmer raised cattle, sheep and hogs. The transportation of meat was taken over by the great packers of Chicago, Kansas City and Omaha. They control the transportation of food through the ownership of refrigerator cars, and they, in coöperation with the railroads, have destroyed the raising of cattle all over the country. They compel cattle to be hauled from distant California to Chicago to be killed. It is then hauled back to California to be consumed. The farmers of the northwest ship their grain to Minneapolis to be milled. It is then shipped back to the northwest to be consumed. The same is true of almost every other industry. A large part of the traffic of the country is sent round about Robin Hood's barn when it should be sent by the most direct route possible. The cost of transportation is increased, industry is destroyed, and the whole industrial, social and agricultural life of the country is on a false basis.

Second, the classifications of railway freight are for the purpose of making the maximum profit. There are hundreds of thousands of classifications. On some days a hundred thousand or more changes are filed with the Interstate Commerce Commission. It would take a week's work of a corps of men just to keep up with these changes. In European countries where government ownership prevails classifications are simple. They are printed in a little rate book that every business man carries in his pocket. They can be understood by anyone. A man knows instantly what his freight charge will be, just as he knows the cost of a telephone call.

Through these classifications discriminations and advantages are given one set of shippers at the expense of another. The old kind of discrimination is gone; but the new kind is just as harmful, and possibly just as universal as was the old. Special routings are given. Differentials, switching advantages, terminal advantages, etc., are allowed. No shipper really knows whether he is on an even keel with his competitor or not.

These are but indicative of a score of conditions which prevail; conditions which must prevail so long as transportation is an agency of profit rather than of service. The sole aim of railroad administration is to make as good a showing as possible. And railway operators are not to be blamed for this. They look upon their industry just as does every other business man. But the state is interested in rendering maximum service to the largest number of people at the minimum cost. And this is only possible through government ownership.

We can get some vision of the social use of railroads by the methods employed in Germany, Australia, Switzerland, Denmark and other states where the conscious purpose of railroad administration is at all times the upbuilding of the country. Denmark utilizes her railroads for agriculture; for the placing of her goods in England and Germany in the quickest possible time at the lowest possible rates. The same is true of Belgium, from which country special trains are run to Zeebrugge, where they connect with government owned steamers for London and to Paris. In Australia the railroads are exclusively a state agency. They aid cattlemen, farmers, dairymen. Each station agent is a government employe. He receives the farmers' products. He sends them to a government terminal or to a public slaughter-house. They are shipped even to England under government control. The farmer gets all that he produces. He is free from discriminations, and there are no middlemen whatever between him and his consumer.

The industrial development of Germany is largely a railroad development. In Germany railroads are run for industry. The chambers of commerce and agricultural associations form a part of the administration. Special rates are given ship-builders to up-build the merchant marine. Similar rates are given on raw materials. Industries and towns are built up in this way; while the great export trade of Germany is partly traceable to the aids and

special rates made on export products. This is but indicative of the thousands of devices that can be developed for upbuilding the state when the transportation agencies are in public hands.

### INTEGRATION OF PHYSICAL EQUIPMENT

Under private ownership there are several hundred railroads built as a separate entity and operated as such. Each railroad has its own terminals, passenger stations, yards. One terminal may be filled with cars awaiting freight; a near-by terminal may be filled with freight clamorous for cars. Empty trains on one railroad pass other empty trains on another railroad going in the opposite direction in search of cargoes. There is terrible waste: waste like that of having a half dozen water plants in the same city; for each railroad has to have terminals, freight houses, passenger stations. It has to have docks, lighterage and warehouses. It has to be equipped for the maximum load.

It is impossible to mobilize all these agencies with hundreds of different railroads maintaining their separate existence. But two railroads enter the city of New York. The New York Central is the only railroad having a freight terminal in Manhattan and it uses every possible means to keep other railroads out. A half dozen other systems maintain separate terminals on the Jersey shore. They ought to be united into a single great terminal. And they ought all to use the Pennsylvania and New York Central facilities in New York City. In Chicago there are a score of terminals; a half dozen great passenger stations. There is tremendous wastage in real estate and in investment, and far greater wastage to the industrial life of the city.

In those countries where the railroads are owned by the government there is usually but one union passenger terminal. The passenger stations are commanding structures. They are the portals of the city. All railway lines enter there. This means great convenience to the public and great economy in operation.

Even greater wastage is involved in the suppression of the water transportation facilities of America. The railroads own the water fronts of our cities. They will not develop them or permit them to be developed because water transportation is cheaper than rail transportation. It costs one-seventh as much to carry freight by water as it does by rail. As a consequence coast-wise shipping

is discouraged or destroyed. Our rivers carry less freight than they did a quarter of a century ago. Canals have been bought up, or through political control of the state they have been put out of business. The Great Lakes from Duluth to Buffalo, the greatest water-way in the world, is little more than a private possession of the railroads and the steel trust. The government has spent tens of millions of dollars on harbors, almost every one of which is under the control of the railroads and the iron and steel industries. A generation ago the Great Lakes were covered with independent fleets. They have been put out of business. Shipping has decreased. This water-way is almost a private possession; while great cities are unable to make use of the water-fronts for the upbuilding of industry or transportation. The State of New York has spent tens of millions of dollars on the Erie Canal. It carries less tonnage than it did a quarter of a century ago. It should be part of a continuous water transportation system from Duluth to the sea-board.

Only the government can work out an integration of rail and water transportation as has been done in Germany and Belgium, in which countries heavy bulk traffic is carried by water, the railroads being reserved for other freight. Immense economies can be made in transportation, and great savings in constructural arrangements and motive power if the rivers, water-ways and seas are permitted to perform the service for which they are naturally intended. This is only possible to the government itself.

Similar colossal economies can be brought about through the substitution of hydro-electric power for coal. There is two million horse power going to waste in New York State alone. There are rivers that could be harnessed. Even the Mississippi could be made to operate our railroads; while the Rocky Mountains and Sierra Nevadas would provide sufficient power to free the railroads of the west from dependence upon coal. A great hydro-electric development organized in a comprehensive way would provide power and light for industry, for our cities, even for the farmers. Such a program has been carried out in Switzerland, in Bavaria, in the province of Ontario, in which states the white coal is supplanting the black coal, with immense savings to industry.

It is probable that the consolidation of the railroads, the unification of terminals, the utilization of motive power and cars to

their capacity would involve savings of hundreds of millions of dollars in transportation cost. Similar economies would be made through the substitution of water for rail transport. This would amount to tens of millions annually, while the substitution of hydro-electric power for coal would mean great economies in transportation costs and a saving of our fuel as well.

#### INTEGRATION OF OPERATION

The railroads of the country should be organized like an army. There should not be hundreds of different railways, each one an entity by itself. The 240,000 miles should be organized as a unit. It is far easier to mobilize railroad service where needed than it is to mobilize an army. If the cars and motive power of the entire country were directed from a single point as are the Pullman cars, the express service, the refrigerator cars, the fast freight lines, there would be adequate facilities for the needs of the country, and a great speeding up in their use as well.

Similar economies would be made in the accounting and clerical operations. Today millions of different rates and classifications are made, which require endless bookkeeping. They involve confusion for railroads and shippers. This could be done away with by unification of transportation and the simplification of classifications.

There are tens of thousands of agents who solicit freight for competing lines. There are thousands of other men engaged in attending to the details of inter-railway relations. In every large city there are a score of competing ticket offices and competing representatives of distant freight lines, all of which cost has to be maintained by the public. Every railroad maintains a highly paid legal staff. The best legal talent of the country is identified with the railroads; and a large part of their effort is devoted to controversies with the Interstate Commerce Commission, with state railroad commissions, with controlling local politics, with looking after the political side of railroading. This involves a waste of millions of dollars. In addition, each railroad maintains its corps of highly paid officials, many of whose salaries equal that paid the President of the United States. Many of these officials are appointed through favor. These high salaried officials could be largely dispensed with



if the financial motive of railroading were ended and the transportation agencies were dedicated to transportation alone.<sup>1</sup>

Millions of dollars more are spent each year in publicity, on advertising, on making public opinion. Immense sums are paid for the stimulation of traffic over particular lines. The losses to the public from wasteful competition and from political activities are colossal.

### ECONOMIES

But these economies are relatively small in comparison with the great savings that would come from public ownership. In the first place government securities bear but 4 per cent or 5 per cent interest. In peace times government securities are issued at from  $2\frac{1}{2}$  per cent to 3 per cent. Railroad managers insist upon a very much higher return. If 2 per cent were saved upon the securities of the railroads, it would amount to \$400,000,000 a year, or nearly twice as much as the total budget of the Post Office Department.

In addition the railways are taking immense sums out of earnings every year and investing them in the property. This is the way betterments, improvements and extensions are made. Hundreds of millions of dollars are collected from the public each year and converted into capitalization, upon which the public is then asked to pay interest and dividends. It is probably true that billions of dollars of the present capitalization of the railroads has been taken from the people in excessive charges and converted into capital account.

Along with this railroads are capitalizing and insisting upon payment of their increasing land values. Land connected with the city terminals and rights of way is increasing rapidly in value. Agricultural land doubled in value between 1900 and 1910. City land increases with about the same rapidity. A single railroad in one of the southern states in its hearing before the Valuation Committee of the Interstate Commerce Commission insisted that it be allowed \$880,000 for land that had cost but \$71,000.

It is probable that several billion dollars have been added to the capitalization of the railroads from the unearned increment of land

<sup>1</sup> The salaries paid administrative officials by the railways amounts to \$340,000,000 a year. As to how much of this is for salaries of men engaged in the actual operation of the properties is not discussed.

and rights of way held by the railroads. This is a social value. It is created by the community. It is traceable to the growth of population, to industry, to the increasing congestion of the country. Upon this valuation, which is being increased at the rate of hundreds of millions every year, dividends are demanded, while the demand is being made that the people shall pay for a social value which they themselves have created.

All of these increments in value could be saved to the community under government ownership. Then betterments made out of earnings would be owned by those who made them; while increasing land values would remain community values, which they are in effect.

#### FREE THE RESOURCES OF AMERICA

The report of the Pujo Investigating Committee made in 1913 showed a remarkable pyramiding of banking, transportation and industry. Practically all of the great transportation systems of America were under the control of four great banking syndicates located in New York. Railroadings has become an agency of finance rather than of industry. Railroads are operated from New York. They are no longer operated for the promotion of the industrial life of the state. Moreover, and this is the gravest possible menace to industrial freedom, the same group that owns and controls the railroads owns and controls the industrial life of America. Competing industries have to compete against concerns which are interlocked with transportation. Even though it should be true that the grosser violations of a generation ago are ended, there still remain endless privileges, preferences, discriminations and rebates which make it difficult for new industries to operate on equal terms with the great combinations of capital. Moreover, the railroads place in the hands of the bankers control of upwards of \$4,000,000,000 annually. The concentration of banking capital is largely traceable to railway earnings, and this capital in turn is used by the great banks for the maintenance of their monopolies.

Industry in America must be free. It must be free from the menace of railroad discriminations and of credit discriminations as well. The talent of the country must be free from fear. It must be released so that it may venture freely into new industries, new mines and new ventures of every sort. For freedom is of the es-

sence of American life. And we cannot have industrial freedom under privately owned transportation systems.

It is probably no exaggeration to assume that the productive capacity of America would be increased by billions of dollars annually if it were free from the present inadequacies of transportation, if it were assured a free and constant outlet, and if the credit of America were free to encourage a competing industry rather than repress it. Public ownership is necessary to free banking. It is necessary to free the ingenuity, talent and labor of America as well. Today mines are closed two or three days a week because of lack of cars. Industry all over the country is strangled because of its inability to transport its output. Automobiles by the thousands are driven to their destination on their own power; millions of men are unable to work full time; while invested capital is reduced to part time employment because of the discriminations and inadequacy of the transportation agencies of the country whose necessities have grown beyond the possibilities of private control.

#### THE EXPERIENCES OF OTHER COUNTRIES

The experience of America is the experience of other countries. Germany suffered from the same difficulties that confront us, as did Italy and Switzerland. These countries found it necessary to take over their railroads in order that the life of the nation should move freely and fully, and wherever the railroads have been taken over the industrial life of the nation has been greatly aided by the many services which the government was able to render. Just as those agencies that are owned by the cities are operated for service and are integrated into the life of the community, so the transportation agencies become a very different thing when the motive of operation is one of service rather than of private profit. The greatest reason of all for public ownership is the change in the motive of railroad transportation.